
REPORT OF THE AUDIT COMMITTEE OF THE MATATIELE LOCAL MUNICIPALITY (FOR THE FINANCIAL YEAR ENDING 30 JUNE 2016)

**(INCORPORATING THE PERFORMANCE AUDIT COMMITTEE OF THE MATATIELE
LOCAL MUNICIPALITY)**



MATATIELE
LOCAL MUNICIPALITY

**THE AUDIT COMMITTEE OF THE MATATIELE LOCAL MUNICIPALITY
(HEREINAFTER REFERRED TO AS “THE MUNICIPALITY” or “MLM”)
PRESENTS THE FOLLOWING REPORT TO THE HONOURABLE SPEAKER
COUNCILLOR MSHUQWANA ON ITS ACTIVITIES AND FUNCTIONS FOR THE
2015 / 2016 FINANCIAL YEAR:**

1 MEMBERS OF THE COMMITTEE

1.1 MEMBERS

Mr. A.R. Duminy	Chairperson: Audit Committee
Ms S.J.K. Earle	Member
Mr. T.W. Tsabo	Member
Ms. N. Thipa	Member (Membership terminated December 2015 - Resignation)

2 MEETINGS:

2.1 The Audit Committee held meetings on the following dates during and relating to the 2015 / 2016 financial year:

- | | |
|----|--------------------|
| a) | 28 August 2015; |
| b) | 17 September 2015; |
| c) | 21 January 2016; |
| d) | 30 March 2016; |
| e) | 20 June 2016; |
| f) | 26 August 2016. |

2.2 The minutes of the above meetings are held by the secretariat of the Municipality and are available for your perusal at your convenience. The committee has considered and reviewed inter alia the following documents relating to the 2015 /2016 financial year in its discussions to date:

- | | |
|----|----------------------------------|
| a) | Audit Committee Charter; |
| b) | Internal Audit Charter; |
| c) | Internal Audit Plan 2015 - 2018; |

d) Annual Audit Plan 2015 / 2016

e) **Internal Audit Reports:**

- i) Economic Development and Planning Review;
- i) EPWP and Public Amenities Review;
- ii) Audit of Performance Information Quarter 1;
- iii) Expenditure and Payables Review;
- iv) Revenue Review;
- v) Audit of Performance Information Quarter 2;
- vi) Governance Review;
- vii) Traffic Management Review;
- viii) Review of Performance Information – Quarter 3;
- ix) Infrastructure Management Review;
- x) Review of Individual Performance Management System;
- xi) Payroll Management Review;
- xii) Risk Management Review;
- xiii) Supply Chain Management Review;
- xiv) GRAP Compliance Review of Interim Financial Statement (Umnotho / UBC);

f) **Further documents and reports considered:**

- i) Auditor General's (AG) Audit Strategy;
- ii) AG's Expectations From The Audit Committee;
- iii) Internal Audit Monitoring Tool;
- iv) Audit Action Plan 15/16
- v) Status of irregular, fruitless and / or wasteful expenditure and fraud;
- vi) Financial statements and Annual Performance Report of the MLM 2014 / 2015;
- vii) Annual Performance Report of the MLM 2014 / 2015 Financial Year;
- viii) Report of the Auditor General 2014 / 2015 Financial Year;

- ix) Report of the Auditor General 2015/2016 Financial Year;
- x) Annual Financial Statements MLM 2015 / 2016 Financial Year;
- xi) Draft Annual Performance Report 2015 / 2016 Financial Year;
- xii) Draft Annual Report 2015 / 2016 Financial Year.

3 TERMS OF REFERENCE

The Audit committee operates in terms of the Audit Committee Charter as well as terms which are set out in appointment letters and performance contracts subject to the provisions of Section 166 of the MFMA. In particular the Committee emphasises that its overall objective is to ensure that good corporate governance is observed and practiced by the Municipality. In particular the purpose is to assist the Council in the course of the Council fulfilling and achieving its developmental objectives which are to deliver a quality service to ratepayers, service consumers and stakeholders utilizing minimum resources, while creating and bringing about a self-sufficient municipality.

4 AUDIT COMMITTEE RESPONSIBILITIES

- 4.1 The Audit Committee submits that it has complied with its responsibilities as set out in its Council approved terms of reference and Audit Committee Charter for the period under review in this report.
- 4.2 The Audit Committee has furthermore reviewed the Audit Committee Charter as well as the Internal Audit Charter and recommended to Council that they be accepted.
- 4.3 The Audit Committee has furthermore reviewed the Internal Audit Plan for the 2015 - 2016 in the light of the previously accepted Internal Audit Plan for the 2014 – 2017 years as well as the reports of the Auditor General for the 2014/2015 and 2015 / 2016 Financial years.

- 4.4 The Committee has considered and reviewed the Draft Annual Performance Report 2015 / 2016 Financial Year, the Draft Annual Report 2015 / 2016 Financial Year and the Annual Financial Statements 2015 / 2016 Financial Year in addition to the various reports of the Internal Auditors and other reports and documents referred to above.

5 AUDITOR GENERAL'S REPORT - 2014 / 2015 YEAR AND FOLLOW UP

- 5.1 The Committee recommended to the Municipal Council that the Audit and Audit Report of the Auditor General for the 2014 / 2015 Financial year be accepted by the Council. This was accepted in January 2016.
- 5.2 The Committee has noted the amended Action Plan prepared by the Internal Audit Unit with the view to maintaining a clean audit. The Committee was of the view that the measures recommended and implemented by Management would materially assist the Municipality in working towards maintaining a clean audit.

6.1 REVIEW OF ANNUAL FINANCIAL STATEMENTS

6.1.1 REVIEW: ANNUAL FINANCIAL STATEMENTS 2014 / 2015 FINANCIAL YEAR

As set out in the Audit Committee's Report to Council in January 2016 the Financial statements for the 2014 / 2015 financial year were considered by the Audit Committee in the first quarter of the 2015 / 2016 year with comments and recommendations from the Internal Auditors being reviewed by the Audit Committee. The recommendations of the Internal Auditors were supported by the Audit Committee and referred to Management. The review and comments of the Audit Committee were further discussed with and referred to Management for implementation.

6.1.2 REVIEW: ANNUAL FINANCIAL STATEMENTS 2015 / 2016 FINANCIAL YEAR

The Interim, draft and final Financial Statements for the 2015 / 2016 were subjected to a comprehensive review by the Audit Committee as well as the External Internal Auditors (Umnotho) and Internal Audit.

6.2 **AUDIT REPORT OF AUDITOR GENERAL – 2014 / 2015 FINANCIAL YEAR**

6.2.1 The Committee has reported on the report of the Auditor General for the 2014 / 2015 Financial year in its report to Council on the 29th of January 2016.

6.2.2 The Audit Committee brought the following to the attention of Council relating to the aforesaid report of the Auditor General in its first and second quarter report and repeats such issues in this report:

- a) The Audit Committee emphasized the continued need to develop new action plans and strategies to ensure that a clean audit is maintained;
- b) The Audit Committee pointed out the need to develop an adequate staff retention strategy to prevent the loss of scarce skills that have been developed in the Municipality over the past years in the effort to achieve a clean audit. In particular, skills relating to internal audit, risk and financial management must be maintained in the long term if the Municipality is to maintain its clean audit status.
- c) The Auditor General identified material misstatements in the reported performance information contained in the annual performance report that was submitted for auditing. Management was able to subsequently correct the misstatements and the Auditor General did not identify material findings on the usefulness and reliability of the reported performance information. This aspect requires further scrutiny and attention.

6.3 **AUDITOR GENERAL REPORT – 2015 /2016 FINANCIAL YEAR**

6.3.1 The Auditor General's Report on the Financial Statements for the 2015 / 2016 Financial Year expresses the opinion that the aforesaid financial statements present fairly, in all material respects, the financial position of the Matatiele Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

6.3.2 **EMPHASIS OF MATTERS:**

The Auditor General drew attention to the following matters:

a) **Electricity Distribution Losses**

Material losses of R1 million were incurred as a result of electricity distribution losses;

b) **Impairment Losses**

Other receivables from non-exchange transactions and trade receivables were impaired by R12 million (2015: R9 million) and R26 million (2015: R32 million) respectively;

c) **Change in Accounting policy**

There was a change in accounting policy due to GRAP 100- Non – current held for sale standard being withdrawn for periods beginning after 1 April 2015;

d) **Corresponding figures**

The corresponding figures for 2015 / 2016 have been restated as a result of errors discovered during 2014/2015 in the financial statements of the Municipality at, and for the year ended, 30 June 2015.

6.3.3 **PREDETERMINED OBJECTIVES**

The Auditor General assessed the reliability and usefulness of the reported performance information to determine whether it was valid, accurate and complete. The Auditor General did not raise material findings on the usefulness and reliability of the reported performance information for the selected objectives.

6.3.4 **ADJUSTMENT OF MATERIAL MISSTATEMENTS**

The Auditor General identified material misstatements in the reported performance information contained in the annual performance report that was submitted for auditing. As management subsequently corrected the

misstatements the Auditor General did not identify material findings on the usefulness and reliability of the reported performance information.

6.3.5 COMPLIANCE WITH LEGISLATION

The Auditor General performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. No instances of material non-compliance with specific matters in key legislation as set out in the general notice issued in terms of the PAA were identified.

6.3.6 INTERNAL CONTROL

The Auditor General considered internal control relevant to the audit of the financial statements, annual performance report and compliance with legislation. No material weaknesses were identified during the audit.

6.3.7 LEADERSHIP

The Auditor General found that Leadership in the Municipality continues to be effective in maintaining a sound environment of ethical business practices, good governance and enhancing the best interests of the municipality.

6.3.8 HUMAN RESOURCE MANAGEMENT

The Auditor General noted that the Finance Department still relies on the use of external consultants in the preparation of the annual financial statements. It was noted however that there was an improvement in skills transfer from the Consultants.

The overall vacancy rate remained stagnant at 9% while the senior management vacancy rate increased from 0% to 17%.

6.3.9 PROPER RECORD KEEPING

The Auditor General noted that the Municipality's filing and record management of the contract register and performance information records requires attention as documentation was not properly filed which impacted on the completeness of information in the financial statements and annual performance report.

6.3.10 DAILY AND MONTHLY PROCESSING AND RECONCILING OF TRANSACTIONS

It was found that the annual financial statements contained material misstatements due mainly to staff members not reconciling information and a lack of adequate review of the annual financial statements. The misstatements were however corrected.

7 RISK AND INTERNAL AUDIT UNITS

7.1 INTERNAL AUDIT UNIT

The Committee believes that this Unit is functioning properly and is continuing to develop its capacity. As has been stated previously the Internal Audit Function of the Municipality will probably continue for at least the medium term to require an out-sourced highly skilled Internal Auditor working with the Internal Audit Unit of the Municipality. The Audit Committee notes that this Unit is able to carry out its work effectively and objectively and is not afraid of making adverse findings when and where necessary.

7.2 MUNICIPAL RISK UNIT

The Committee believes that this unit is functioning well but would benefit from increased reporting to the Audit Committee.

8 COMPLIANCE WITH LAWS AND REGULATIONS

8.1 PERFORMANCE REPORTS AND MONTHLY FINANCIAL STATEMENTS

The Performance Information audited contains sufficient reporting and information. The contents thereof appear to be an accurate and fair reflection of the performance of the Municipality in its statutory, public and other obligations and duties.

8.2 LEADERSHIP, GOVERNANCE AND PERFORMANCE MANAGEMENT

The Audit Committee is generally satisfied with leadership and management in the Municipality. Increased attendance by Senior Management of Audit

Committee Meetings has contributed to more effective discussion of issues raised in reports and will furthermore assist in addressing problem areas as and when they are identified.

8.3 RISK ASSESSMENT AND MANAGEMENT

The Committee notes the commitment of Management in putting in place effective strategies and plans for risk assessment and management by all its directorates. This management responsibility will be monitored on an ongoing basis by the Committee. The Audit Committee notes that Risk Assessments have been carried out and that a Risk Committee is in place to identify, monitor and address risks.

8.4 FRAUD PREVENTION AND RELATED POLICIES

The Committee notes efforts by the Internal Audit unit to exposing potential and real fraud cases within municipal directorates and assisting management in dealing effectively with such incidents. Policies and plans are in place to ensure the continued effective management of risk and minimization of fraud within the Municipality. The Fraud Prevention Plan addresses the risk of fraud and must be reviewed in the near future with reference to the risk register and possible fraud risks that may arise from time to time.

The Audit Committee emphasizes that Fraud prevention should be a high priority and that further measures should be investigated and implemented in high risk areas.

8.5 PERFORMANCE MANAGEMENT

This area remains a high risk area for the Municipality. Steps to limit this risk have been implemented by Management and the Committee is satisfied with the response of Management at present.

9 AUDIT FUNCTION

9.1 INTERNAL AUDIT FUNCTION

The Committee is satisfied with the work of the outsourced Internal Auditors (Umnotho /UBC) in assisting the Municipality with this function and believes that the Municipality has further improved its capacity and compliance relating to internal audit substantially in this financial year as set out above. The Audit

Committee considers the work of the Internal Auditors to be effective and helpful in assisting the Audit Committee and Municipality to carry out their functions and activities.

The Audit Committee is of the view that the contribution of Umnotho has materially assisted the Municipality in developing its own internal audit capacity.

9.2 **EXTERNAL AUDIT FUNCTION**

The Committee is further satisfied with the work of the External Auditors (Auditor General) and considers such work effective. The Auditor General's representative has attended various meetings of the Committee and this has assisted the Audit Committee to fulfil its functions generally and in particular relating to the Auditor General.

10 **PERFORMANCE AUDIT COMMITTEE**

- 10.1 The Audit Committee of the Municipality sits as an Audit Performance Committee and has carried out various functions relating to Performance issues in the year under review.
- 10.2 Performance Management and Information Reports have been considered by the Committee and the Committee noted the "Medium" Risk rating of the Internal Auditors in these reports with some High Risk areas being identified. This area should remain a High priority field for the Municipality and will continue to be monitored by the Committee.
- 10.3 The Audit Committee has participated in performance assessments for Municipal managerial staff. The Audit Committee notes that the delay in finalising these performance assessments can impact on the effectiveness of the performance assessments in correcting any issues that may arise and require attention before the end of the financial year. The Audit Committee will continue to participate in further performance assessments.
- 10.4 The Audit Committee has furthermore conducted a self-assessment by way of the completion of a monitoring tool that has been forwarded to Internal Audit. The Audit Committee would benefit in future from a performance assessment by Management which could be overseen by the Auditor General's representative.

11 **HIGH RISK AREAS**

The Committee notes that the following reports carried “**HIGH**” Risk ratings by the Internal Auditors and stresses the need for Management to attend to all undertakings made and remedial steps suggested in such reports:

- a) Governance and Council Structure;
- b) Revenue Management;
- c) Traffic Services Review;
- d) Economic Development and Planning Report;
- e) Payroll Review.

The above areas remain a concern and require constant review and attention.

12 **EXTREMELY HIGH RISK AREA**

As mentioned in the first and second quarter reports the **EPWP** Public Amenities report by the Internal Auditors carried a “**CATASTROPHIC**” rating and is currently an extremely High risk area for the Municipality. The areas that have been identified in this report are:

- a) Approval of Rentals and Payments;
- b) Proper Authorisation of Beneficiaries;
- c) Total wages Monitoring and Physical verification of Beneficiaries;
and
- d) Capturing and Approval of Beneficiaries.

The Audit Committee must continue to monitor performance in these areas.

13 **NEW AUDIT COMMITTEE AND COMMITTEE MEMBERSHIP**

A new audit committee has been appointed by the Municipality and is comprised of experienced and highly qualified members who have the skills and experience to enable the Audit Committee to operate on a high level and discharge all its duties.

14 **CONCLUSION AND RECOMMENDATION**

The Audit Committee recommends to Council that the report of the Auditor General dated 30 November 2016 be accepted.

Signed at Matatiele this 23rd day of January 2017.

A handwritten signature in black ink, appearing to read 'A.R. Duminy', with a stylized flourish at the end.

AR Duminy

Chairperson of the Audit Committee and Performance Audit Committee, MLM for the Financial Year ended 30 June 2016